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Libraries, Utilities & Center Committee

2012 Audit Plan
Seattle Public Utilities
December 4, 2012

Scope of Audits

➢ Role of auditor and SPU management

➢ Concept of materiality

➢ Reports to be issued:

  – Report on audit of financial statements

    • Water

    • Drainage & Wastewater

    • Solid Waste

  – Report on Internal Control, if significant deficiencies or material weaknesses are noted

  – Letter of recommendations and observations on internal controls and related matters

Timing of Audits

- Planning procedures are complete
- Interim procedures are in process
- Substantive audit fieldwork is scheduled for March 4 through April 5, 2013
- We plan to issue our audit reports by April 30, 2013
- Council Committee presentation planned for May 2013
  - Required communications will be made
  - Review of audit opinions and other reports issued

New Accounting Pronouncements

➢ The following standards are effective for the 2012 financial statements:

   – GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* –

- Incorporates certain accounting and financial reporting guidance into GASB literature. No significant impact to SPU.

   – GASB 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* –

- Establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This <u>will</u> impact SPU.

New Accounting Pronouncements

➢ There are additional GASB statements (GASB No.'s 65 - 68) that have been released with effective dates starting in 2013. SPU management is still reviewing each statement to determine applicability, and do not intend to early adopt any of these statements.

➢ SAS 122, *Statements on Auditing Standards: Clarification and Recodification*

  – Recodification of the U.S. auditing standards and changes to certain standards to bring them in conformity with international auditing standards.

  – No major change to auditing requirements, but there is a new format to audit reports.

Phases of Audit

➢ Audit Planning (October 2012)
  – Develop initial audit plan based on information obtained from management; provide the 'client prepared' schedules listing

➢ Audit Fieldwork
  – Internal control testing (October-December 2012)
    • Revenue/Cash Receipts, Expenses/Disbursements, Payroll
    • Work Order System and Utility Plant related systems
    • General Information Technology Controls
  – Audit final fieldwork (March-April 2013)
    • Substantive analytical review & tests of details
    • Review of Management Discussion & Analysis and Notes to Financial Statements

➢ Report Preparation & Issuance (April 2013)
  – Audit opinions, reports on significant deficiencies or material weaknesses, if applicable, and management recommendations

Areas of Audit Effort

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➢ Utility plant and related accounts:

–   Capitalization policies

–   Impairment assessment

–   Work order system

➢ Bond-related accounts:

–   Arbitrage liability

–   Capitalized interest

–   Compliance with covenants

–   Debt refunding and defeasance

➢ Accrued Liabilities & Contingencies

–   Environmental/pollution remediation liability

–   Landfill postclosure liability

–   Litigation and claims

Areas of Audit Effort

➢ Deferred charges

➢ Cash and investments

➢ Accounts and other receivables

➢ Operations:

– Retail and wholesale sales

– Operating expenses

– Capital and operating contributions and grants

➢ Net asset/position classification

➢ Documentation of new control processes implemented during the year.

➢ Management Discussion & Analysis and note disclosures

Risk Assessment

➢ Risk assessment
  – Primary risk areas
    • Revenue recognition
    • Deferred accounts
    • Plant/work orders
    • Management estimate accounts

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